

WHY HAVE SUB-SAHARAN AFRICA'S ECONOMIES FARED SO BADLY IN THE RECESSION?

A series of questions and answers prepared for
THE RT. HON. SIR GEOFFREY HOWE, Q.C., M.P.
Secretary of State for Foreign and Commonwealth Affairs

by the Institute of Development Studies
at the University of Sussex

March 1984



The Institute of Development Studies at the University of Sussex
Brighton BN1 9RE England

Telephone: Brighton (0273) 606261 international +44 273 606261 Telex: 877997 IDSBTN-G
Cable: Development Brighton

WHY HAVE SUB-SAHARAN AFRICA'S ECONOMIES
FARED SO BADLY IN THE RECESSION?

<u>Questions</u>	<u>Page</u>
Did all SSA economies have a bad record throughout the 1970s?	1
Why, at least since 1979, have results been almost uniformly bad?	
Have SSA governments grossly mishandled their responses to recession?	1
Why has public sector capacity to act declined so sharply?	2
Have SSA states overexpanded their public sectors?	3
How much of SSA's failure to respond effectively flows from bad economic management?	4
Have Francophone countries done better economically?	5
What is special about the Francophone West African, Central African, Mali and Malagasy central banks?	5
Does the greater number of middle level Europeans and old colonial hands benefit Francophone African states?	6
Do many SSA economies have serious external debt problems or is it only a handful, such as Zaire, Sudan, Nigeria, Ivory Coast?	7
How much would rescheduling help?	7
Isn't it vital for SSA economies to export more?	8
Why is SSA agriculture performing so badly?	9
Do not SSA economies urgently need 'to get the prices right'?	11
What about investment?	11
Shouldn't SSA economies be practising austerity?	12
Is there a case for more policy dialogue?	13

Note: 'SSA' is used as an abbreviation for 'sub-Saharan Africa' throughout.

Did all SSA economies have a bad record throughout the 1970s?

No. The decade can be divided pretty clearly into two periods. Over 1970-75, SSA as a region had growth rates below the LDC average. Over 1976-79 the SSA average (at about 6%) was above the LDC average. Over the decade as a whole, the SSA average was below the LDC average.

Within SSA results varied widely. There were countries of chronically poor economic performance, e.g. Ghana, Sierra Leone, Sudan, Madagascar, Zaire. Other countries stagnated, e.g. Senegal, Benin, Upper Volta. Civil war, external intervention and domestic strife lowered growth rates (or caused absolute declines) in Uganda, Chad, Rhodesia (as it then was), Angola, Mozambique, Central African Republic. Very poor mineral prices from 1975 onwards hit several economies very hard, notably those of Mauritania and Zambia. However, many countries maintained over most of the decade growth rates of 5% or above, e.g. Botswana, Cameroon, Ivory Coast, Kenya, Malawi, Nigeria, Swaziland, Tanzania.

The main cause of economic success cannot be uniformly ascribed either to the availability of resources, nor to the chosen economic strategy. Policies on such issues as distribution, rural/urban balance, the role of state enterprise, etc. varied widely. However, all the successes sought to achieve or to maintain above-the-line budgetary balances and to avoid severely overvalued exchange rates.

Why, at least since 1979, have results been almost uniformly bad?
Have SSA governments grossly mishandled their responses to recession?

Of all regions, SSA has been hit hardest by the 1979-83 recession. Deterioration in terms of trade of the order of 33% to 50% between 1976 and 1982 have been common. A majority of countries have also suffered from severe droughts.

Many of those conditions prevailed in 1973-74 as well. What was notable then was the speed and relative success of a large number of SSA adjustment programmes leading to good performances between 1976 and 1979.

The SSA experience between 1979 and 1983 has been very different for a number of reasons. First, governments believed 1979-80 would have an impact on the global economy like 1973-74 - a sharp shock, a short slump and a rapid recovery. (They read the OECD, IMF, IBRD studies of the day which predicted exactly that and prepared their responses accordingly.) In the event this was unwise - there was no global recovery until 1983 and its impact has still barely affected the real price of most SSA exports.

Second, there was no parallel to the Oil Facility and other fairly soft/easy method of access to credit made available in 1973-74. This led many countries into unwise use of supplier credits and of commercial bank loans to bridge what they expected to be a short slump. When the slump continued and interest rates (both nominal and real) rose sharply, their external debt service positions became unmanageable. In over half the cases, substantial commercial payments arrears built up despite sharp (in many cases 25% or more) cuts in import volume.

Third, the unexpectedly long duration of the slump, and cuts in imports forced by limited credit availability combined with rising debt service costs, eroded government revenue bases. Despite real cuts on spending under most heads, recurrent budget deficits became chronic even in states like Malawi and Tanzania which had previously had above-the-line surpluses. These deficits interacted with the terms of trade deterioration to produce far more significant currency overvaluations than had been experienced previously.

Why has public sector capacity to act declined so sharply?

The simple answer is lack of resources. For example in Zambia rural health services usually lack fuel and spares for vehicles, drugs and food for patients, equipment and kerosine for clinics. Extension services in several countries cannot sensibly advise use of fertilizer, insecticide or improved seed because none of these is available.

In some countries - notably but not exclusively the poorer Francophone ones - civil servants and municipal employees are commonly paid up to three months in arrears. Nearly everywhere attempts to regain budgetary balance have reduced the purchasing power of government employees' pay draconically. e.g. in Uganda a clerk or labourer's monthly pay will barely buy one week's staple food for his family; in Zaire a secretary's salary will just about cover the cost of going to and from work.

In other countries, as the result of two decades of intensive training backed by substantial external support, competent personnel especially in health and education are available. Unfortunately lack of adequate government revenue or import capacity means that drugs, textbooks, kerosine for fridges, desks and chairs, paper and pencils, beds and medical equipment, vehicles and fuel cannot be provided in adequate quantities for the personnel to function properly. e.g., Recently only an emergency foreign grant averted the total absence of drugs in the main Swaziland hospital at Mbabane.

Have SSA states overexpanded their public sectors?

Sometimes but not always. On average SSA government budgets - with the exception of social security and related transfer payments - are about the same per cent of GDP as in other areas of the world. Nor is there a marked average difference in their makeup by type of spending. Social security and related transfer payments are the lowest of any region, e.g. in Tanzania government pensions, national provident fund and maize meal subsidies - the main social security and related transfer payment items - are about 2% of GDP.

SSA public enterprise investments vary widely in operating efficiency and profitability. Few generalisations can be made safely even within countries. Public enterprises dealing with food procurement and distribution (in most cases, the lineal descendants of colonial boards) are relatively high cost and limited in their ability to distribute throughout the country. But these failings also characterize most private and co-operative enterprises dealing with food production and

distribution.

In two senses the public sector is overextended. First, the present eroded revenue base does not allow full operation of what capacity exists. In cases such as health, education, water, transport where the need is clearly for more, not less, services for economic as well as humane reasons, the cure lies primarily in restoring the revenue base. For states (e.g. Kenya, Nigeria) not facing significant external threats some cutbacks in defence spending may well be appropriate.

Second, given the limited financial and personnel resources, greater selectivity in determining what to do would seem necessary. In most cases the actual choice is not between whether a service is provided publicly or privately; it is between whether it is provided publicly or not at all. In present circumstances, a more limited range of functions carried out better would usually be desirable.

How much of SSA's failure to respond effectively flows from bad economic management?

This varies widely from country to country. Just as the 1970's economic performance record was very uneven so also was the quality of economic management. In every country some policy mistakes and a greater number of weaknesses in implementation and management can be cited. However, it is not convincing to argue that economic management suddenly became worse as of 1979.

What clearly did happen was that it became less able to produce desired results. That, however, was true in all regions - not excluding OECD - over 1979-82. The failure was more pronounced in SSA because the external shocks were greater both relative to the physical and financial capacity to respond and to the ability of economic management to tackle harder problems.

Failure to achieve results - for whatever reasons - is bad for morale. When repeated failures accumulate over several years, individual and institutional managerial capacities are eroded. That process has occurred already in several states which performed badly in the 1970's;

there is a real danger that it will occur in several more if the problems which have overwhelmed many SSA countries in the past five years remain unresolved.

Have Francophone countries done better economically?

Probably not. If one pairs roughly comparable Francophone and Anglophone economies and looks at a range of indicators, e.g. past and present growth rates, external balance, external debt burden and adequacy of public services, it is possible to reach an opposite conclusion. Much depends on which indicators of economic performance are chosen.

Botswana has a better record than Gabon. Cameroon has performed better than Nigeria. Kenya has done somewhat better than the Ivory Coast (especially taking into account the latter's appalling external debt position). While both Sierra Leone and Guinea have been consistently unsuccessful economically, the Guinean record is worse. Senegal - despite near stagnation for most of two decades - has done less badly than Ghana. Malawi has outperformed Mali by a substantial margin and Tanzania has a much better record than the Malagasy Republic.

What is evident is that the majority of Francophone African states have usually avoided recurrent budget deficits, open import controls and - less markedly - sustained high rates of inflation. The reason for this - and their typically higher external debt service burden - lies in the monetary and exchange rate system which members of the franc zone operate.

What is special about the Francophone West African, Central African, Mali and Malagasy central banks?

These are operated for the two groups of states, as well as for Mali and Madagascar, on the lines of the last phase of the British Colonial Currency Boards. They have strict limits on fiduciary issues and are basically French-run in terms of policy. Change of currency parities against the French franc (or each other) is only permitted exceptionally. Nor is exchange control against France allowed. The French leverage is

exerted partly through the provision of French personnel but even more through the provision of French Treasury Funds to cover approved state and external balance deficits.

This framework does prevent access to the printing press for the finance of government deficits; it also prevents devaluation as a cure for overvaluation. As a result it leads to smaller government spending (or to non-payment of bills including wages and salaries) and to somewhat greater price stability. It has also led to far greater use of short and medium term external commercial credit (£3,500 million in debt repayment requirement for the Ivory Coast over 1984-88) and to heavier taxation of agricultural exports - neither of which features can be considered evidence of a satisfactory strategy on broader economic grounds.

Does the greater number of middle-level Europeans and old colonial hands benefit Francophone African states?

Yes and no. The greater numbers of mechanics, secondary school teachers, hairdressers and foremen are the counterpart to less training - especially less technical and vocational training. That seems to be a weakness of Francophone Africa and of France's form of development cooperation which is in contrast to Commonwealth Africa's relative success in training and the strong cooperation it has received from the UK.

Commonwealth African governments may at times have been too eager to localise jobs, but on balance it is doubtful that the quality of their basic line officers is now lower than that of Francophone states with their larger numbers of former colonial civil servants. Part of the difference is terminological. Anglophone states use more specialist consultants and technical assistance personnel from a variety of sources and tend to call such people advisors even when they are doing standard civil service work.

A real difference does exist in respect to the staffing of Treasuries and Central Banks. But the effect upon policy and administration appear to be as much the result of maintaining fixed Franc zone parities, to the

absence of exchange controls, to the limitation of Fiduciary issues and to the operation of the French Treasury special account as to the actual nationality of the personnel employed.

Do many SSA economies have serious external debt problems or is it only a handful, such as Zaire, Sudan, Nigeria, Ivory Coast?

Most SSA economies have very severe external debt and debt service problems. Only Botswana and the Cameroon can be said unambiguously to combine viable medium term import capacity, sound external balance parameters, and comfortable debt service ratios. Gabon may soon reach that position but only after five years of internal recession to overcome its external debt crisis.

Zaire, the Sudan, Nigeria and now the Ivory Coast are the best known cases because they are absolutely the largest. Smaller countries debts whose debt-servicing costs now require 25-50% of export earnings are equally weighed down. But the absolute size of the debt is not large enough to attract the attention of the international financial community.

Further, SSA external debts include very high proportions of very short term credits (i.e. under one year), commercial arrears and IMF drawings which do not figure in the World Bank's debt statistics but do need to be serviced. Taking these into account, the typical African economy has a debt service ratio of 35-40% of export earnings. Even countries like Zimbabwe which had limited debt in 1980, which have borrowed only for priority capital projects, and which have sought to maximize soft and long term finance, have debt service ratios which are already over 30% and likely to rise.

How much would rescheduling help?

Rescheduling by itself will not help much in the more acute cases - at least not unless the period and terms are to be significantly different from current London and Paris Club models.

To be able to service debt African countries must increase exports. To

do so they need to avoid economic collapse and to invest in the production of exportable goods and in the necessary supporting infrastructure. This means more imports for specific investments, more imports to keep the economies going and, more imports to maintain or rehabilitate the existing capital stock. Import cuts in many economies are now starving the export sector of materials and spare parts and debilitating processing and transport capacity.

Two or three year roll-forward debt rescheduling exercises cannot provide all of the foreign exchange needed to rehabilitate or expand exports to the extent necessary to enable the debt eventually to be re-paid. Both new lending (public and/or private) and interim balance of payments support funding are needed too. More useful than repetitive one or two year capital payment reschedulings would be a number of packages combining 3 to 5 year capital payment deferral with aid and selective new lending.

In some cases - e.g. Zaire, Sudan - it is clear that the full amount lent can never be recovered. An analogy to the reconstruction of company debt should apply here - it would be better to write off some of the debt (or to achieve the same result by turning it into longer term, low interest obligations) in order to allow a practicable programme for servicing the rest.

Isn't it vital for SSA economies to export more?

Yes. Many are now covering only 50 to 60% of their imports from export earnings. Worse, this is being achieved at import levels which have been cut so much that these economies, including their export sectors, cannot function properly. The need to raise export earnings could not be clearer.

Part of the problem is the fall in the real prices of many exports. This has both reduced earnings on present volumes and acted as a disincentive to expansion. But SSA economies can do little about this on their own, and the OECD recovery has not yet caused much improvement - especially to prices for minerals.

Therefore either the volume of present exports must be raised or new ones developed. But which exports? To that question there are no easy, general answers - except wrong ones. If all SSA economies were to raise coffee, tea, cocoa, tobacco and cotton exports 5 to 8% a year, the price elasticities and their combined share of world trade in these products are such they they would earn less, not more foreign exchange. Africa is not, in general, a low labour cost area; very few countries can mount labour-intensive, export zone type programmes with any prospect of success.

Some specific answers can be given:- Ghana needs to rehabilitate cocoa, Uganda tea, the Sudan cotton and Senegal groundnuts. Zimbabwe should rehabilitate and expand ferrochrome production. New natural resource based products with reasonable market prospects should receive priority attention. But these approaches need to be worked out case by case. They require both time and finance to implement. All they could provide would be a start to the rebuilding of current account positions.

Why is SSA agriculture performing so badly?

Several reasons. A very important reason - especially for export crops - is price. Overvalued exchange rates and falling real prices internationally do not encourage output. Where food imports are not restricted by taxes, licenses or lack of foreign exchange similar considerations apply to grain production competing with imports, but such cases are in a distinct minority. For food crops more generally evidence suggests that price may not usually be the main problem. Food prices have risen faster than either wages or the cost of living in most African economies since 1979. Where this is not the position in respect of official prices, peasants often sell on parallel markets and so do benefit from the higher prices.

A second reason is the general economic situation. Agricultural inputs - even hoes - are in scarce supply because of decreased import capacity. The general economic situation is also causing processing and transport capacity to break down and has the effect of depriving food producers of

the domestic manufactures and other goods that would serve as an incentive for them to bring their produce to the market.

A third reason is the lack of basic health, water and education in many rural areas. This provides a very strong disincentive to staying on the farm. The more ambitious leave for the urban areas, where such services are better. Of those who stay, it may be observed that peasants who are often ill or illiterate or both and who often have to spend much of their time walking many miles to get wood and water are not likely to be very productive.

A fourth reason is the overemphasis on large mechanized farms, and on large scale centrally organized irrigation schemes - an overemphasis still promoted by many external bodies. Mechanized agriculture in Africa - at least for staple food production - requires skilled management, fuel, and capital and is therefore import intensive. It often yields a poor return on capital employed even when - as in Zimbabwe - it is technically efficient. The same is usually true of large scale, centrally run irrigation schemes - as in Senegal, Mali, Northern Nigeria (Sudan and Kenya are partial exceptions). These divert government expertise, personnel and funds away from addressing the central problems of peasant agriculture.

Finally, - in contrast to South and Southeast Asia - SSA has benefited very little from research and technology development tested in the field for economic viability and peasant useability. Extension services are weak and peasants are cautious in resisting innovations (rightly so as their lives are at stake and much past advice has been wrong). But the basic problem is lack of known, tested knowledge on how output can be raised within specific ecological, labour, input and capital constraints. More attention from the International Crops Research Institutes (especially ICRISAT), more coordinated regional work (as in SADCC on sorghum, millet and grain legumes) and more carefully planned programmes are needed, especially for food crops. This is an area in which external initiatives and support are both necessary and likely to be welcomed.

Do not SSA economies urgently need 'to get the prices right'?

Certainly. Present exchange rates (foreign exchange prices), grower prices and price controls are often unrealistic and counter-productive. But, given the prevailing situations, price corrections often can be made only in conjunction with other measures.

If prevailing staple grain prices are only half what growers need to break even, such prices cannot be adjusted overnight with no other action. Either there will be reactions by workers (whether riots, strikes or absenteeism) imperilling both public order and production; or there will need to be compensating - or partially compensating - wage increases and/or additional food supplies to reduce 'parallel market' grain prices.

If devaluation is not accompanied by external finance to permit increased imports to restore local production (e.g of simple manufactured goods), and the processing and transport of exports, it will usually simply set off new inflationary spirals which rapidly cancel out the devaluation's initial price correction.

At issue are not simply relative price changes - real wages in many African states have fallen 50% since 1979 and except for the Francophone states (who have recently floated down with the franc) most have devalued at least 30%. Questions of phasing and of the need to take supply increasing steps parallel with price corrections are also important. As the World Bank pointed out in its 1982 WDR, additional resources are necessary not simply to make price corrections compatible with political stability but even to allow them the chance of having any lasting economic effect.

What about investment?

Further investment is urgent, but not primarily in new capacity. Patterns of investment need to be changed every bit as much as relative prices.

Key elements of present productive capacity and infrastructure throughout

SSA are deteriorating for lack of maintenance. Many production units have deteriorated so extensively that they require major rehabilitation. This should have top priority in gross investment. Investment in new capacity will often make no addition to output; it may simply reduce the general level of capacity utilisation.

This is partly the responsibility of aid and credit agencies. It is much easier to secure funding for a new highway than for rehabilitation of an endangered one; it is still more difficult to get finance for the equipment and training of maintenance units.

Selective new investments to raise production possibilities in respect of exports and substitutes for present imports (especially food and energy) are needed. But in general much more attention (and external support) needs to go to maintenance, rehabilitation and the fuller use of existing capital stock.

Shouldn't SSA economies be practising austerity?

Most are. Taking into account population growth and terms of trade losses, Zambia's per capita use of resources has fallen by nearly 50% since 1975. Total constant price expenditure on public services in Tanzania (excluding debt service) has been reduced each year since 1979-80 - with a total fall of perhaps 20%. Real civil service wages and salaries are down 20% or more since 1979 in a majority of African states. Import volume cuts are frequently of the same order of magnitude.

As the IMF has said with regard to the import cuts, this type of wholesale austerity is becoming counter productive. At the international level it is both a drag on the recovery of world trade and - because it is eroding exports and making debt service burdens look ever more unbearable - raises risks of deliberate defaults or - more probably - of defaults through sheer inability to pay. Nationally it is eroding both incentives to work hard (by peasants, wage earners, civil servants and managers alike) and the capacity to provide minimum critical services (e.g. power, water, education, health, agricultural extension). What it has not been able to achieve by itself is the freeing of sufficient

resources either to restore external balance or to end recurrent budget deficits. In some countries there is a danger that further cuts will merely have the effect of diminishing exports and government revenue yet further.

Continued austerity - tempered once real output per capita, government revenue and exports begin to recover - is critical. But it will only work if more foreign exchange to restore production and government revenue is also available. In some cases this may largely require altering the balance of external financial flows toward maintenance, rehabilitation and operating inputs. In others - as with the rehabilitation programmes of major commercial enterprises - more external grants and credits will be required if the austerity is to pay off.

Is there a case for more policy dialogue?

Of course, if it really is dialogue. Both donors and African states have made mistakes, need to reassess and to revise their programmes, and are (or ought to be) unsure what really will work now. There is an urgent need to get away from casting blame, making rhetorical generalisations, trying to compress very complex and specific problems into one sentence slogans. Serious policy dialogues aimed at seeing in specific contexts what the critical problems are, what has been prescribed and attempted in the past successfully or unsuccessfully, what actions should and can be undertaken now - such dialogues could be very useful.

Preaching and imposing programmes (which is what most SSA governments currently think invitations to dialogue actually mean) will not be useful. First, many of the actions now criticized: e.g. early 1970's grain price reductions, emphasis on mechanized agriculture, overinvestment in large factories, international airports, etc. were advocated and financed by some of today's present most confident critics. Second, generalized prescriptions from a long distance rarely correspond well to specific realities. Third, imposed programmes may well be accepted but usually only after an economy is in a state of nearly complete collapse and with a limited commitment to working steadfastly for their implementation. These conditions do not augur well for the

success of even the most soundly conceived programmes.

Because the situation in most SSA economies is very serious, because past results suggest serious errors in donor and recipient policies and analysis, because the present context requires policy changes and because specific programmes must relate to actual national contexts (not generalisations intended to apply to 30 countries), and because difficult policies require genuine national understanding and backing if they are to work - dialogue is critical. But it needs to be clear that what is intended really is dialogue, in which donors acknowledge that they too need to learn more in order to formulate sensible programmes for their own actions. Only on that basis is any contribution to the design of rehabilitation and recovery programmes for SSA countries likely to prove successful.